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RUEKJCS/OSD WASHDC
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RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 1026
RUEHVEN/USMISSION USOSCE 3040
RUCNDT/USMISSION USUN NEW YORK 2425
RUEHNO/USMISSION USNATO BRUSSELS BE
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C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000937

SIPDIS

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TAGS: [ECON](#) [EAID](#) [EINV](#) [PGOV](#) [KG](#)

SUBJECT: KYRGYZ MINISTER PROVIDES ECONOMIC TOUR D'HORIZON

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Classified By: Amb. Tatiana Gfoeller, Reason 1.4 (b) and (d).

11. (C) Summary: Kyrgyz Minister of Economic Development and Trade Japarov sketched a rosy image of Kyrgyz economic conditions and assured the Ambassador, in a September 12 meeting, that the Kyrgyz government would be able to manage food and energy concerns for the upcoming winter. Japarov confirmed that those companies "not paying taxes" risked electricity shutoffs soon, but could not verify the status of plans, to include possible privatization, for the Bishkek thermal power plant. He requested greater "understanding" of USAID projects in the Kyrgyz Republic, and complained that the tax exemption goods provided to Manas Airbase receive decreased the economic benefit of hosting the base. End summary.

Is the Glass More Than Half Full?

12. (SBU) In a September 12 introductory meeting with the Ambassador, Kyrgyz Minister of Economic Development and Trade Akylbek Japarov gave an optimistic view of future economic conditions that he said would build on existing 7% economic growth and 15% inflation. (Note: Inflation, including the food and energy sectors, is actually about 25-30%. End note.) Japarov also believed the government's preparations to avoid an energy and macroeconomic crisis this coming winter would be sufficient, and highlighted government planning and budgeting which would focus on a three-year cycle. However, he also lamented the likely increase in natural gas prices to the \$300 per thousand cubic meter rate for imports from Uzbekistan.

Minister Discusses Taxes and Investment

13. (SBU) Expressing interest in the Kyrgyz Republic becoming an Asian Tiger akin to Singapore, Japarov took pride in the World Bank's recent positive assessment of regulatory reforms

in the Kyrgyz business sector. (Comment: Embassy has heard of increased regional interest in Singapore as a political and economic model. End comment.) He assured the Ambassador that the Kyrgyz Republic would continue on this path. Turning to a more immediate issue, Japarov addressed concerns raised in the business community about complete electricity cutoffs being planned for restaurants and other similar establishments and said that power would only be cut to operations "not paying taxes." (Note: Bishkek mayor Nariman Tuleyev sounded the alarm earlier this week, when he indicated closer scrutiny of firms deemed not paying sufficient taxes. End note.) He then addressed the "radical" reform of the tax code, which cuts the value added tax and is still pending approval, and emphasized the "liberal" tax and currency regime in the Kyrgyz Republic. Japarov claimed that he would attract nearly \$600 million in foreign investment by the end of 2008. (Note: By mid-2008, according to the Kyrgyz National Statistics Committee, the Kyrgyz Republic had attracted \$303 million in foreign direct investment. End note.)

14. (SBU) In response to the Ambassador's question about privatization plans for the Bishkek thermal plant, Japarov confirmed that an assessment of the facility was underway, but did not comment on options for privatization or potential transfer of the plant to the Bishkek city administration. However, he did admit that the current level of subsidies for the plant's operation was unsustainable. Japarov expressed interest in attracting U.S. investment to the Kyrgyz Republic, and, referencing Mayor Tuleyev's recent actions against the Hyatt, said he understood that a solution is at hand. (Note: The Hyatt General Manager told Embassy September 12 that he has a draft agreement for review. End

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note.)

Understanding USAID

15. (C) Japarov raised foreign assistance, and after expressing appreciation for previous USAID programs, stressed the need for mutual "understanding" of aid activities. He said that "closed" information about USAID and other assistance projects raised questions about "other goals" of the assistance activities that he did not want to address. Japarov suggested that USAID focus, in the future, on more projects that enhance the investment climate in the Kyrgyz Republic.

Taxing Goods and Services (at Manas Airbase)

16. (C) Japarov referenced his vote, while a parliamentarian, for the agreement establishing Manas Airbase near Bishkek, and said that at the time he hoped that the base would bring economic benefits to the country. Although signaling that this was an issue for the Ministry of Foreign Affairs, he lamented that supplies, to include fuel, provided to the base are exempt from taxes. Such taxes would aid the Kyrgyz economy, and he argued, should also be applied to goods provided to the Russian base at Kant and other military facilities in the country.

Comment

17. (C) Japarov was open and cordial throughout the meeting, but his comments echoed the common refrain among Kyrgyz government officials that the administration will be able to manage the (energy and food supply) challenges of the coming winter. The Minister accepted the Ambassador's offer to meet again to discuss his concerns in greater detail, where we can present information about the (economic) benefits of Manas Airbase and USAID projects. However, Japarov cited a proverb in his remarks, which the Russian Ambassador had also voiced

to the Ambassador earlier in the week, which seemed to be an
odd coincidence.
GFOELLER